

# RatingsDirect®

---

## St. Louis Regional Convention & Sports Complex Authority Missouri; Appropriations; General Obligation

**Primary Credit Analyst:**

Henry W Henderson, Boston (1) 617-530-8314; [henry.henderson@standardandpoors.com](mailto:henry.henderson@standardandpoors.com)

**Secondary Contact:**

John A Sugden, New York (1) 212-438-1678; [john.sugden@standardandpoors.com](mailto:john.sugden@standardandpoors.com)

### Table Of Contents

---

Rationale

Outlook

Government Framework

Financial Management

Economy

Budgetary Performance

Medicaid And Sequestration

Debt And Liability Profile

Related Criteria And Research

# St. Louis Regional Convention & Sports Complex Authority

## Missouri; Appropriations; General Obligation

### Credit Profile

US\$65.5 mil conv & sports fac proj & rfdg bnds (Missouri) ser A 2013 due 08/15/2021

<i>Long Term Rating</i>	AA+/Stable	New
Missouri GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

### Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' rating and stable outlook to the St. Louis Regional Convention & Sports Complex Authority (RCSCA) series A 2013 bonds, reflecting the appropriation pledge of the state of Missouri. At the same time, Standard & Poor's affirmed its 'AAA' rating on Missouri's general obligation (GO) bonds outstanding and its 'AA+' rating on the state's appropriation debt outstanding.

The ratings reflect Standard & Poor's assessment of the state's:

- Strong and diverse economic base;
- Very strong budget management framework;
- Strong reserves in the form of a budget reserve fund that can only be accessed under limited circumstances; and
- Moderate debt burden.

The RCSCA series 2013 A bonds are payable from base rental payments from the state of Missouri that are subject to annual appropriation. The certificates of participation and leasehold revenue bonds outstanding are subject to annual appropriation and the GO bonds are secured by the state's full faith and credit pledge. This issue will be used to refund debt outstanding, which officials estimate will result in net present value savings of about \$8.0 million or 12.4% of principal, with the savings taken as a payment from RCSCA to the state after the bonds are sold. The refunding does not extend any debt maturities.

The annual payments from the state to RCSCA are defined in a 1991 financing agreement through which the original bonds were issued. The 1991 agreement is not being amended and the payments from the state to the RCSCA under the financing agreement are not being altered; the payments are scheduled to continue through Aug. 1, 2021. Officials indicate that although the St. Louis Rams have an option to not play their home games in the RCSCA dome after March 2016, this scenario would not significantly affect the authority's finances and would not change the financing requirements under the 1991 agreement.

Under our state criteria methodology published Jan. 3, 2011, the state's overall score is '1.6', which, based on our criteria, is associated with a 'AA+' indicative credit level. As our criteria indicate, the final state rating can be within one notch of the indicative credit level. The 'AAA' GO rating on Missouri reflects our view of the state's very strong

budget management framework, including substantial statutory budget flexibility to maintain strong reserves and structural budget balance. Historically, the state has sustained its strong reserves, primarily its budget stabilization reserve balance, at its constitutionally mandated level. By state statute, any occurrence of budgetary imbalances during the fiscal year must be cured by the governor's rescission authority. We believe that the strength of the budget management and government framework has allowed Missouri to maintain reserve and liquidity levels that are consistent with a 'AAA' rating.

We believe that recent legislation, known as House Bill 253, could potentially have a significantly negative impact on the state's finances under certain circumstances. The bill was approved by the legislature and vetoed by the governor on June 5, 2013, but the legislature may attempt to override the veto at a Sept. 11, 2013 session; the vote in the Senate was by a veto-proof majority while the House vote was slightly below a veto-proof majority. Although the legislation would gradually reduce the state's income tax rate over a 10-year period, we believe that a mechanism in the legislation would have a much more significant and accelerated impact on the state's finances if certain federal legislation is passed. The bill would gradually reduce the personal income tax rate by a total of 0.5 percentage points over a 10-year period and reduce the corporate income tax rate from 6.25% to 3.25% over the period. However, the bill contains a provision that if the federal Marketplace Fairness Act of 2013, or similar uniform sales tax collection legislation, becomes federal law, income tax rates will automatically be decreased by 0.5 percentage points in the same year as the federal legislation was enacted. A separate provision in the current state statute allows for refunds for up to the three previous years. Officials' analysis of the fiscal impact of House Bill 253 indicates a maximum first-year general revenue loss of \$1.2 billion if the federal uniform sales tax legislation was enacted, in part due to assumed refunds for previous years along with a lag in collecting the additional sales tax. After the first year impact, the continuing annual lost general revenue from this bill is projected to be \$465 million in the second year, with the losses increasing in the out years. The projected potential loss, especially in the first year of this scenario, is significant when compared with the total amount of general revenue spending, which is \$8.47 billion in the fiscal 2014 budget.

We believe that if the Missouri legislature overrides the governor's veto and enacts the legislation, and the federal government passes the Marketplace Fairness Act, it has the potential to result in a significant financial impact to the state despite requirements for the maintenance of a balanced budget. In response to the potential revenue reductions, the governor has implemented \$400 million of spending reductions for fiscal 2014. In addition, officials indicate that fiscal 2014 began with an unbudgeted and available surplus of \$272 million that is available for expenditures. However, the total of these two sources would fall short of the estimated revenue loss.

The Missouri economy's greatest strength, in our view, is its economic diversity, due in part to the state's location at the geographic center of the nation, which provides an economic advantage in trade and manufacturing. The two major metropolitan areas -- St. Louis and Kansas City, where 55% of the state's population resides -- offer a wide variety of employment opportunities and provide the lion's share of the state's income.

Missouri's population grew 7.2% from 2000 to 2010, and was 6.02 million in 2012, making the state the 18th-most populous in the U.S. and the fifth-most populous west of the Mississippi River. The state's income levels are somewhat below the national average, with 2011 per capita effective buying income equal to 91% of the national level. The unemployment rate averaged 6.9% in 2012, better than the national average of 8.1%. According to the U.S. Bureau of

Labor Statistics, the state's unemployment rate for June 2013 was 6.9%, better than the 7.5% national rate.

The estimated general revenue results for fiscal 2013 are for a surplus of \$497 million above original budget projections and \$391 million above revised projections. The major source of this surplus was individual income taxes; the gross collections were \$283 million, or 4.7% above original budgeted projections. Officials believe that a significant amount of this surplus was due to the acceleration of income into tax year 2012, but do not have an exact estimate of the impact. Somewhat offsetting the income tax surplus were the sales tax collections, which ended the year \$43.1 million, or 2.2%, below original projections.

Missouri is constitutionally prohibited from issuing GO bonds without voter approval, except for refunding bonds and emergency issues up to \$1 million. Consequently, revenue bonds and annual appropriation bonds are important components of capital financing strategy. Debt payments are a first-priority budget item in terms of state budgeting. The state does not have any interest rate swaps outstanding and only \$45 million of variable-rate debt. Existing voter authorizations allow the state to issue an additional \$285.5 million in GO bonds for water pollution and stormwater control. Officials indicate that the state has no near-term debt plans.

## Outlook

The stable outlook reflects our expectation that Missouri will continue to maintain strong reserves and that its financial management will remain good, as evidenced by the recent early and decisive budgetary cuts made to offset a sluggish economic recovery. The outlook also reflects the state's diverse economy, anchored by the St. Louis and Kansas City metropolitan statistical areas. Downside risk for the rating includes our view of the potential impact of pending state legislation (House Bill 253) on the state's financial profile. If the legislation were to be enacted in the state, and federal uniform sales tax legislation were also to be approved, we believe there could be negative pressure on the state if officials did not make adequate budget adjustments, which could be very large for a single year, and therefore politically difficult. Additional downside risk includes the potential for significant reductions in federal funding that currently flows to the state. Standard & Poor's will continue to monitor potential future federal spending reductions and, once these are identified, will evaluate their effect on the state's finances and officials' response to these revenue reductions.

## Government Framework

Missouri's constitution requires the state to approve balanced budgets each fiscal year. The constitution also requires the state to stay in balance throughout the year. To help manage the state's budget and maintain minimum fund balances despite revenue drops, the administration commissioner is empowered by statute to prioritize payments in the event that appropriations are in excess of available revenues. If the governor's office and commissioner determine that there is an impending budgeted shortfall for the current budget, based on the monthly financial reports, the governor can use his rescission authority to hold back on various budget expenditures to maintain the budget in balance. Debt payments have first priority and cannot be prorated. To further protect bondholders, state statute gives GO debt service a first charge on all state revenues.

The state has limited revenue-raising ability; it can only raise its income and sales tax rates by a limited amount without voter approval. The current level of allowable increase is about \$80 million. Voter approval is also required to approve most new revenues, and in recent years, Missouri has not taken such action. The governor can use his budgetary rescission to maintain budgetary balance, and has used this authority in recent years.

We have assigned a score of '1.3' out of '4.0' to Missouri's government framework, where '1.0' is the strongest score and '4.0' the weakest.

## Financial Management

The state's financial management practices and policies are considered to be "good" under Standard & Poor's FMA methodology. An FMA score of "good" indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Missouri performs detailed research for revenue and expenditure growth trends for the current-year budget and conducts a forecast for two additional years. It performs current-year budget reconciliations monthly and reports them to the legislature. The state passes supplemental budgets annually to cover appropriation shortfalls. In addition, the state constitution requires the governor to withhold and rescind spending to maintain expenditures within actual revenues and maintain the budget reserve fund at 7.5% of the prior year's general revenue collections. The state has a six-year capital plan, which it updates biennially. Investment policies are comprehensive and the state treasurer reviews them monthly; holdings are updated monthly and made available to the public. Missouri recently formalized its debt management policies.

We have assigned a score of '1.5' to the state's financial management, where '1.0' is the strongest score and '4.0' the weakest.

## Economy

IHS Global Insight Inc. indicates that Missouri's employment in the first quarter of 2013 was flat compared with the fourth quarter of 2012. Although there were gains in sectors such as leisure and hospitality, education and healthcare, and construction, these were offset by declines in professional and business services, retail and wholesale trade, and government. Weather has dampened transportation employment in the state, with last year's drought and this year's flooding reducing shipping on the Mississippi River. Compared with a year earlier, the state's economy added 14,000 jobs. At the end of March, total employment was 35,000 higher than during the trough of the Great Recession, but still 121,000 below the pre-recession peak.

IHS projects that Missouri's economic recovery through 2017 will be slightly weaker than the national average. The firm projects that the leading sectors for employment growth will be professional and business services, education and health care, and manufacturing. Food manufacturing is the state's largest subsector, and accounts for 16% of manufacturing jobs, with the state hosting major operations for multiple food processing firms. Transportation equipment manufacturing accounts for an additional 14% of manufacturing jobs, including automobile manufacturing, which has been declining. Providing economic stability is Missouri being the headquarters location for 10 Fortune 500 firms. IHS believes that below-average population growth in the next 10 years will limit the state's economic growth.

during that period.

We have assigned a score of '2.1' to the economy, where '1.0' is the strongest score and '4.0' the weakest.

## **Budgetary Performance**

Missouri's annual budgets are based on revenue projections from a consensus forecasting process that includes the governor, the House, the Senate, and a representative from the University of Missouri; outside economic consultants are normally used in the process. The forecasts are updated in December. State law requires that the budget be balanced and the governor is required to make budget cuts during the fiscal year to preserve a balanced budget.

Missouri derives about 70% of its general revenue from income tax receipts and about 25% from sales and use tax collections. Article X of the Missouri Constitution limits the amount of taxes and fees that can be imposed by the General Assembly; the limit is tied to an increase in average personal income. If 1% or more of revenues in any given fiscal year exceeds the limit, the state must refund the excess amount to taxpayers. Missouri refunded a total of \$979 million for fiscal years 1995-1999, but no refunds were due following the end of fiscal years 2000-2012.

Following an amendment to the Missouri Constitution approved by voter referendum in November 2000, Missouri's budget stabilization and operating reserve funds were combined into a single budget reserve fund beginning in fiscal 2001. The fund must be maintained at a level equal to 7.5% of the previous year's net general revenue collections and cannot be spent, except with the governor's declaration of an emergency and a two-thirds vote by the legislature. The state has tapped the budget stabilization fund only once, following massive flooding in the state along the Mississippi and Missouri rivers in 1993.

The state ended with about \$1.3 billion in unrestricted cash and investments in its general fund at fiscal year-end 2012. Missouri's budget reserve fund is available for intrayear cash flow borrowing, which must be repaid by mid-May. The state therefore does not borrow externally for cash flow purposes. Officials monitor cash flow monthly.

In fiscal 2012, the budget reserve fund ended the year fully funded, at \$498 million or 7.5% of the previous year's net general revenue collections, as required by the Missouri Constitution, in addition to the unassigned general fund balance of \$196 million.

### **Fiscal 2014 budget**

The consensus revenue forecast for fiscal 2014 is from January 2013, and it projected 3.1% net general revenue growth to \$7.93 billion, which resulted in zero structural gap for the executive budget to close. The largest components of the fiscal 2014 projection are: individual income tax (68% of total), to increase by 4.7% from the fiscal 2013 projection; and sales and use tax (24% of total), to increase by 2.3%. Officials estimate that fiscal 2013 ended with a surplus of \$397 million after transfers to the rainy day fund. Of that amount, \$125 million is used in the 2014 budget for one-time capital expenditures, leaving an unspent surplus of \$272 million. Officials indicate that the only other one-time revenues in the budget are the \$8 million assumed to be generated with this refunding issue.

While the governor's budget proposal assumed the expansion of Medicaid and \$47 million of net savings, the enacted budget did not include expansion and was adjusted accordingly. Spending increases in the budget include a \$66

million increase in the K-12 education foundation formula and \$34 million for state colleges and universities if they achieve certain performance measures. The budget maintains the 7.5% budget reserve fund.

Due to concerns about the bill, the governor restricted \$400 million of spending so far in fiscal 2014, and officials indicate that the \$272 million unspent surplus from fiscal 2013 is also available as an additional fiscal 2014 revenue.

## Medicaid And Sequestration

The state currently covers eligible adults only up to 19% of the federal poverty limit, and although the governor has proposed expanding coverage up to 138% of the poverty limit under the federal Affordable Care Act (ACA), many in the legislature oppose this expansion. The state's Medicaid caseload in fiscal 2012 was about 894,000 enrollees, and although it was projected to increase in fiscal 2013, that projection was revised downward to 879,100. The fiscal 2014 budget projects a slight increase to 883,650. Due to the low coverage limit for adults, the "woodwork effect" from the enrollment of currently eligible people is limited mostly to children, and officials estimate that about 35,000 people, mainly children, will be driven to enroll by ACA.

The state projects that the major impact from federal sequestration will be on its career centers and on its mental health block grants; however, officials indicate that the state does not plan to backfill for lost federal revenues in any area.

We have assigned a score of '1.3' to the state's budget performance, where '1.0' is the strongest score and '4.0' the weakest.

## Debt And Liability Profile

Missouri is constitutionally prohibited from issuing GO bonds without voter approval, except for refunding bonds and emergency issues up to \$1 million. Consequently, revenue bonds and annual appropriation bonds are important components of capital financing strategy. Missouri had about \$836 million in appropriation bonds and other lease obligations as of June 30, 2012. In addition, the state had about \$433 million of GO debt and \$3.07 billion of gas tax and motor vehicle registration fee-backed bonds issued by the Missouri Highways and Transportation Commission. Including GO, lease-backed, and gas tax highway bonds, Missouri's debt burden is, in our view, moderate at about \$800 per capita and about 2% of personal income. Existing authorizations allow the state to issue an additional \$285.5 million in GO bonds for water pollution and stormwater control. At this time, it is our understanding that the state does not have any near-term debt plans or variable-rate debt.

Missouri has two major pension systems that substantially cover all state employees, the Missouri State Employees' Retirement System (MOSERS) (which includes the Missouri state employees plan and the judicial plan) and Missouri Department of Transportation and Highway Patrol Employees' Retirement System. The combined unfunded actuarial accrued liability (UAAL) for these plans increased to \$4.98 billion as of June 30, 2012 from \$4.27 billion in 2011, and the funded level decreased to 65.7%. The UAAL was \$830 per capita and 2.2% of total state personal income, which we view as above average. The state makes 100% of its annual required contribution (ARC) for these plans. In addition

to these plans, there are statewide plans for education employees and the university system, although those programs are funded by the local employers, not the state. The combined UAAL for all of these systems is significantly higher, at \$12.5 billion. The funding for the teacher pension system, which has the largest UAAL, is equal to 100% of a statutory formula, but less than the ARC.

The state made some pension changes for new employees that took effect on Jan. 1, 2011 -- including increasing the employee contribution rate to 4% from 0% and the retirement age to 65 from 62 -- which was projected to reduce expenditures by \$400 million over 10 years. In addition, the MOSERS board will evaluate potential changes to demographic assumptions at future meetings, based on an experience study presented to the board on March 13, 2012.

Missouri's other postretirement employee benefits (OPEB) are provided by three funds. The UAAL for Missouri's OPEB was estimated at \$2.79 billion at the end of fiscal 2012, or about \$465 per capita, up from a \$2.56 billion UAAL at the end of fiscal 2011. The state has \$84 million of assets in one of the funds, which provides for an overall funded ratio of 2.9% for the three funds. The actual contributions in fiscal 2012 were equal to 41% of the actuarially determined annual OPEB costs during the year.

We have assigned a score of '1.9' to the state's debt and liability profile, where '1.0' is the strongest score and '4.0' the weakest.

## Related Criteria And Research

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

### Ratings Detail (As Of July 24, 2013)

Missouri COPs		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Missouri Brd of Fd Commr, Missouri</b>		
Missouri		
Missouri Brd of Fd Commr (Missouri) st wtr poll control GO rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Missouri Brd of Pub Bldg, Missouri</b>		
Missouri		
Missouri Brd of Pub Bldg (Missouri)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Missouri Brd of Pub Bldg (Missouri) spl oblig		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Missouri Brd of Pub Bldg (Missouri) spl oblig ser 2003A</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed



**Ratings Detail (As Of July 24, 2013) (cont.)**

**Missouri Dev Fin Brd, Missouri**

Missouri

Missouri Dev Fin Brd (Missouri) lsehold

<i>Long Term Rating</i>	AA+/Stable	Affirmed
-------------------------	------------	----------

Missouri Dev Fin Brd (Missouri) lsehold rfdg rev bnds

<i>Long Term Rating</i>	AA+/Stable	Affirmed
-------------------------	------------	----------

Missouri Dev Fin Brd (Missouri) lsehold rfdg rev bnds

<i>Long Term Rating</i>	AA+/Stable	Affirmed
-------------------------	------------	----------

**Missouri Dev Fin Brd (State of Missouri Office Bldg Projs) lse ser 2005**

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
--------------------------	------------------	----------

**Missouri Hlth & Educl Facs Auth, Missouri**

Missouri

Health and Educational Facilities Authority of the State of Missouri (Missouri) (Univ of Missouri-Columbia Arena Proj)

<i>Long Term Rating</i>	AA+/Stable	Affirmed
-------------------------	------------	----------

**St. Louis Regl Conv & Sports Complex Auth, Missouri**

Missouri

**St. Louis Regl Conv & Sports Complex Auth (Missouri) tax-exempt conv & sports fac proj & rfdg bnds ser A-1 2003 dtd 08/01/2003 due 08/15/2007-2021**

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
--------------------------	------------------	----------

Many issues are enhanced by bond insurance.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

**McGRAW-HILL**